

# Legislative Audit Division

State of Montana



Report to the Legislature

March 2002

## Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 2001

## Board of Regents and Office of the Commissioner of Higher Education

This report contains three recommendations. Issues addressed in the report include improving compliance with:

- Appropriation laws.
- Federal costs and lender review requirements.

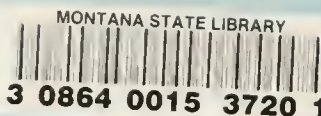
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## FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 1999, was issued on March 30, 2000. The Single Audit Report for the two fiscal years ended June 30, 2001, will be issued by March 31, 2002. Copies of the Single Audit Report, when available, can be obtained by contacting:

Single Audit Coordinator  
Office of Budget and Program Planning  
State Capitol  
Helena MT 59620  
Phone (406) 444-3616

Legislative Audit Division  
Room 160, State Capitol  
PO Box 201705  
Helena MT 59620-1705

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# LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor  
John W. Northey, Legal Counsel



Deputy Legislative Auditors:  
Jim Pellegrini, Performance Audit  
Tori Hunthausen, IS Audit & Operations  
James Gillett, Financial-Compliance Audit

March 2002

The Legislative Audit Committee  
of the Montana State Legislature:

This is our financial-compliance audit report on the Board of Regents and Office of the Commissioner of Higher Education (OCHE) for the two fiscal years ended June 30, 2001. This report contains three recommendations where the office could enhance compliance with state and federal laws and regulations. The written response to the audit recommendations is included at the end of the audit report.

We thank the commissioner and his staff for their assistance and cooperation throughout the audit.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Scott A. Seacat", with a long, sweeping horizontal line extending to the right.

Scott A. Seacat  
Legislative Auditor



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# **Legislative Audit Division**

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**Financial-Compliance Audit**

**For the Two Fiscal Years Ended June 30, 2001**

## **Board of Regents and Office of the Commissioner of Higher Education**

Members of the audit staff involved in this audit were Angie Lang,  
Jim Manning, and Laura L. Norris.



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## Appointed and Administrative Officials

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Board of Regents of Higher Education			Term
			<u>Expires</u>
	Margie Thompson, Chair	Butte	Feb. 1, 2003
	Ed Jasmin, Vice Chair	Bigfork	Feb. 1, 2004
	Christian Hur, Student Regent	Billings	June 30, 2003
	John Mercer	Polson	Feb. 1, 2008
	Lynn Morrison-Hamilton	Havre	Feb. 1, 2006
	Richard Roehm	Bozeman	Feb. 1, 2005
	Mark Semmens	Great Falls	Feb. 1, 2007

Judy Martz, Governor\*

Linda McCulloch, Superintendent of Public Instruction\*

Dr. Richard Crofts, Commissioner of Higher Education\*

\*Ex officio member

### Administrative Officials

Dr. Richard Crofts, Commissioner of Higher Education

Dr. Joyce Scott, Deputy Commissioner for Academic and Student Affairs

Rod Sundsted, Associate Commissioner for Fiscal Affairs

Laurie O. Neils, Director of Budget and Accounting



**Board of Regents and  
Office of the  
Commissioner of Higher  
Education**

We performed a financial-compliance audit of the Board of Regents and Office of the Commissioner of Higher Education (OCHE) for the two fiscal years ended June 30, 2001. The prior audit report contained six recommendations. OCHE implemented four recommendations and partially implemented two recommendations.

This current audit report contains three recommendations. The first recommendation in the report addresses how OCHE can work with the Office of Budget and Program Planning to improve compliance with state laws regarding appropriations.

The second section of the report deals with federal compliance. It discusses two items where OCHE could improve procedures to comply with federal requirements regarding federal reporting and lender reviews.

We issued an unqualified opinion on the financial schedules contained in the report. This means the reader may rely on the presented financial information and the supporting information on the state's accounting system.

The listing below serves as a means of summarizing the recommendations contained in the report, OCHE's response thereto, and a reference to the supporting comments.

Recommendation #1

We recommend:

- A. OCHE record indirect cost recoveries as revenue in compliance with state law and policy.

OCHE Response: Concur. See page B-4.

- B. The Office of Budget and Program Planning work with OCHE to ensure expenditure activity for OCHE is recorded in compliance with state law. .... 8

Office of Budget and Program Planning Response: Concur. See page B-5.

Report Summary

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<u>Recommendation #2</u>	We recommend OCHE strengthen accounting procedures to ensure federal amounts are allowable.....	9
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OCHE Response: Concur. See page B-4.

<u>Recommendation #3</u>	We recommend OCHE perform biennial reviews of lenders meeting federal criteria as required by federal regulations for the Federal Family Education Loan program. ....	10
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OCHE Response: Concur. See page B-4.

## Introduction

We performed a financial-compliance audit of the Board of Regents and Office of the Commissioner of Higher Education (OCHE) for the two fiscal years ended June 30, 2001. The objectives of our audit were to:

1. Determine OCHE's compliance with applicable state and federal laws and regulations.
2. Make recommendations for improvements in OCHE's management and internal controls.
3. Determine the implementation status of prior audit recommendations.
4. Determine if OCHE's financial schedules are fairly presented for the two fiscal years ended June 30, 2001.

The Montana Guaranteed Student Loan Program allows eligible students to receive guaranteed loans from leading institutions for post-secondary education. The program, administered by OCHE, is required to obtain annual audits (#00-06 and #01-06).

In accordance with section 5-13-307, MCA, we analyzed and disclosed the cost, if significant, of implementing the recommendations made in this report. Areas of concern deemed not to have significant effect on the successful operations of OCHE are not specifically included in the report, but have been discussed with management.

As required by section 17-8-101(6), MCA, we audited and are reporting on the reasonableness of internal service fund fees and fund equity balances at OCHE. OCHE has one internal service fund, the Montana University System group insurance program. We reviewed the internal service fund activity and determined the rates are commensurate with costs and the fund equity balance is reasonable.

## Introduction

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### Background

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#### Board of Regents of Higher Education

Article X of the Montana Constitution establishes the Board of Regents of Higher Education to govern and control the Montana University System. The board has administrative and supervisory control of the units of the university system and general supervision of community colleges. The board consists of seven members appointed by the Governor and confirmed by the Senate. The Governor, Superintendent of Public Instruction, and Commissioner of Higher Education are ex officio members of the board.

#### Office of the Commissioner of Higher Education

As required by Article X of the Montana Constitution, the board appoints a Commissioner of Higher Education. The board prescribes the term and duties of the commissioner. The commissioner is responsible for providing leadership, technical assistance, and staff support to the board and the units of the university system. Duties of the Office of the Commissioner of Higher Education include academic planning and curriculum review, budgetary planning and control, legal services and labor negotiation policies and procedures. Total authorized full-time equivalent (FTE) staff for OCHE was 73.55 FTE during the audit period. This consisted of 15.40 FTE funded by the General Fund for general administration and operations, 14.95 FTE for federal grant operations, and 43.20 FTE for the Guaranteed Student Loan program. Currently the office is organized into 11 programs as shown on the financial schedules on pages A-9 and A-10. A brief discussion of each program follows:

Administration Program - provides general administration for all the duties of the office. This includes academic, student assistance, financial, and legal administration as well as labor relations and personnel administration.

Board of Regents Administration - consists of the costs associated with the operation of the board.

Student Assistance Program - consists of the Western Interstate Commission on Higher Education (WICHE) student exchange

program; the Washington, Wyoming, Alaska, Montana, Idaho (WWAMI) cooperative medical program; the Leveraging Educational Assistance Partnership (LEAP) program; the Perkins Loan Fund match program; state matching dollars for the federal Supplemental Education Opportunity Grant (SEOG); the Montana Work Study Program; the Montana Tuition Assistance Program (MTAP); and the Baker Grants.

Guaranteed Student Loan Program - processes loan applications, maintains records on student borrowers, warehouses records, collects loan payments and performs other duties related to the Federal Family Education Loan program.

MUS Group Insurance Program - accounts for all activity related to the Montana University System employee benefits program and flexible spending plan.

Carl D. Perkins Administration - the Board of Regents is designated as the sole state agency for the federal Vocational Education - Basic Grants to States, formerly known as Carl D. Perkins, program. This program supports vocational education at the secondary and post secondary level. The federal School-to-Work grant is also accounted for in this program.

Dwight D. Eisenhower Mathematics & Science Education Act - a federal program that provides funds to upgrade the teaching skills of teachers in the mathematics and science disciplines. Grants are awarded to all institutions of Higher Education within the state on a competitive basis.

Talent Search - is a federally funded program to provide career and financial aid counseling to students who are low-income, physically handicapped, or culturally deprived. It includes General Fund support for an American Indian/Minority Achievement program. It also includes the federally funded Gaining Early Awareness and Readiness for Undergraduate Program (GEAR-UP), which is a new program.

## Introduction

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Appropriation Distribution - is the distribution of the state's General Fund and millage appropriations to the university units.

Community College Assistance - is the distribution of the state's assistance to the three community colleges.

Nonbudgeted - is nonbudgeted activity not specifically identified with a program. The majority of this activity for both years relates to the MUS Group Insurance Program. In fiscal year 2001 it includes indirect cost recoveries in the General Fund as discussed on page 7.

# Prior Audit Recommendations

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## **Prior Audit Recommendations**

We performed the audit of the Board of Regents and Office of the Commissioner of Higher Education (OCHE) for the two fiscal years ended June 30, 1999. The 1999 report contained six recommendations. OCHE implemented four recommendations, and partially implemented two recommendations. The recommendations not fully implemented are discussed again in this report. They concern expenditures in excess of appropriations on page 7 and lender review requirements on page 9.





# Findings and Recommendations

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## **Expenditures in Excess of Appropriations**

In our prior audit report, we noted OCHE reduced administration expenditures in the General Fund rather than recording revenue when it received its indirect cost reimbursement for a federal program from the federal government. OCHE reduced expenditures again in fiscal year 2000.

In response to the prior audit report, OCHE requested an increase in the General Fund budget from the Office of Budget and Program Planning (OBPP) but was unsuccessful. Instead, OCHE received permission from OBPP to reduce budgeted expenditures in the General Fund and record nonbudgeted General Fund expenditures equal to the indirect cost reimbursement revenue received from the federal government. This accounting treatment circumvents the appropriation process.

The effect of recording nonbudgeted expenditures in fiscal year 2001 or improperly reducing expenditures in fiscal year 2000 are the same. These transactions are not in compliance with the Montana Constitution and state law, which prohibit any expenditure from the General Fund without a valid appropriation. OCHE incurred \$31,811 and \$30,105 of General Fund expenditure activity in fiscal year 2000 and 2001, respectively, without appropriation authority.

In response to our audit inquires on January 30, 2002, OBPP officials issued a letter stating they will ask OCHE to request a supplemental General Fund appropriation for fiscal year 2002 and fiscal year 2003, if sufficient spending authority is not available when recording indirect cost funds as revenue. They also noted OCHE will need to submit a budget request for spending authority for the 2005 biennium for this issue.

## Findings and Recommendations

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### Recommendation #1

We recommend:

- A. OCHE record indirect cost recoveries as revenue in compliance with state law and policy.
- B. The Office of Budget and Program Planning work with OCHE to ensure expenditure activity for OCHE is recorded in compliance with state law.

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### Federal Compliance

OCHE administers two federal financial assistance programs that are considered major programs under the Federal Single Audit Act. They are the Vocational Education-Basic Grants and Federal Family Education Loans (Guaranteed Student Loan) programs. These two programs accounted for approximately \$9.8 million and \$4 million of federal expenditures during the two-year audit period. In addition, the Guaranteed Student Loan Program (GSLP) guaranteed \$77.8 million and \$87.9 million in new loans in fiscal years 2000 and 2001, respectively, for the Federal Family Educations program. Total federal financial assistance, excluding the loan guarantee contingency, for OCHE was \$11.3 million and \$13.5 million for fiscal year 2000 and fiscal year 2001, respectively.

The following sections discuss how OCHE could improve procedures to comply with federal requirements.

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### Federal Reporting Errors - Questioned Costs

During our audit we noted several accounting errors which resulted in incorrect amounts being reflected on reports submitted to federal agencies. The errors also result in unallowable (questioned) costs being charged to federal grants. The following paragraphs discuss the items noted in our audit.

OCHE received two refunds from sub-recipients for the Tech-Prep Education grant. The refunds should have properly reduced the expenditures reported for this grant. However, during the 2001 fiscal year end process, the grant accountant noted the negative expenditure amounts and, assuming it was an error, recorded expenditures in the Tech-Prep grant and moved the refunds to the

Vocational Educational – Basic grant. As a result, expenditures are overstated by \$47,663 for the Tech-Prep grant and understated by the same amount for the Vocational Education-Basic grant on the states accounting system (SABHRS). When preparing the federal Financial Status Report for the Tech-Prep grant, OCHE used the SABHRS amounts. Therefore, the error is also included in the amounts reported to the federal government and resulted in excessive costs being reported in the Tech-Prep grant. Accordingly we question \$47,663 of costs reported for the Tech-Prep grant.

While reviewing the error above, we noted in fiscal year 2001, OCHE had charged \$6,751 in presenter fees for professional development conferences for the Tech-Prep grant. Presenter fees are unallowable at the state level under the federal grant requirements. OCHE officials stated they had verbal agreements that the educational consortiums attending the conferences would pay for all these costs. The officials provided documentation that the consortiums had provided \$4,000 in reimbursements to cover some of the presenter fees. However, the remaining presenter fees are still recorded as expenditures for the Tech-Prep grant. Accordingly, we question an additional \$2,751 of costs recorded for the Tech-Prep grant.

### **Recommendation #2**

**We recommend OCHE strengthen accounting procedures to ensure federal amounts are allowable.**

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### **Lender Reviews**

Federal regulations require OCHE's Guaranteed Student Loan program to conduct comprehensive biennial on-site reviews of certain lenders participating in the Federal Family Education Loan program. These regulations require a review of lenders whose dollar volume of loans made or held and guaranteed by the program in the preceding year (a) equaled or exceeded two percent of the total of all loans guaranteed by the program that year, (b) was one of the ten largest lenders whose loans were guaranteed by the program that year, or (c) equaled or exceeded \$10 million.

## Findings and Recommendations

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In our prior audit we noted OCHE was not in compliance with the federal requirements for lender reviews. During our current audit period, OCHE made progress in complying with the federal requirements. It completed nine of the ten reviews required for the period of January 1, 2000 to December 31, 2001. However, OCHE did not complete a review of the one lender that is the largest volume lender. Because OCHE has not fully implemented the prior recommendation, we repeat it in this report.

### **Recommendation #3**

**We recommend OCHE perform biennial reviews of lenders meeting federal criteria as required by federal regulations for the Federal Family Education Loan program.**

# **Independent Auditor's Report & Office Financial Schedules**

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# LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor  
John W. Northey, Legal Counsel



Deputy Legislative Auditors:  
Jim Pellegrini, Performance Audit  
Tori Hunthausen, IS Audit & Operations  
James Gillett, Financial-Compliance Audit

## INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee  
of the Montana State Legislature:

We have audited the accompanying Schedules of Changes in Fund Balances & Property Held in Trust, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Board of Regents and Office of the Commissioner of Higher Education (office) for each of the fiscal years ended June 30, 2000 and 2001. The information contained in these financial schedules is the responsibility of the office's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, the financial schedules are presented on a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The schedules are not intended to be a complete presentation and disclosure of the office's assets, liabilities, and cash flows.

In our opinion, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances and property held in trust of the Board of Regents and Office of the Commissioner of Higher Education for each of the fiscal years ended June 30, 2000 and 2001, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "James Gillett".

James Gillett, CPA  
Deputy Legislative Auditor

January 31, 2002





BOARD OF REGENTS AND OFFICE OF THE COMMISSIONER OF HIGHER EDUCATION  
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST  
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	General Fund	Special Revenue Fund	Enterprise Fund	Internal Service Fund	Agency Fund
FUND BALANCE: July 1, 2000	\$ 132,025	\$ 11,864,150	\$ 207,546	\$ 6,153,618	\$ 0
PROPERTY HELD IN TRUST: July 1, 2000					\$ 30,338
<b>ADDITIONS</b>					
Budgeted Revenues & Transfers-In	1,201,748	40,521,320	2,705,168	29,356,016	
NonBudgeted Revenues & Transfers-In	2,428	3,710,140		101	(9,440)
Prior Year Revenues & Transfers-In Adjustments	25,671	1,295,551			9,440
Direct Entries to Fund Balance	131,448,201	13,489,202			
Additions To Property Held in Trust					66,117
Total Additions	132,678,047	59,016,213	2,705,168	29,356,117	66,117
<b>REDUCTIONS</b>					
Budgeted Expenditure & Transfers-Out	132,752,097	55,740,861	2,777,271	29,305,820	
NonBudgeted Expenditure & Transfers-Out	30,105	614,629		492	
Prior Year Expenditure & Transfers-Out Adjustments	21,421	25,023		708,189	
Reductions in Property Held in Trust					67,260
Total Reductions	132,803,623	56,380,513	2,777,271	30,014,501	67,260
FUND BALANCE: June 30, 2001	\$ 6,449	\$ 14,499,850	\$ 135,443	\$ 5,495,234	\$ 0
PROPERTY HELD IN TRUST: June 30, 2001					\$ 29,195

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

BOARD OF REGENTS AND OFFICE OF THE COMMISSIONER OF HIGHER EDUCATION  
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST  
FOR THE FISCAL YEAR ENDED JUNE 30, 2000

	General Fund	Special Revenue Fund	Enterprise Fund	Internal Service Fund	Agency Fund	Expendable Trust Fund
FUND BALANCE: July 1, 1999	\$ (18,420)	\$ 11,336,060	\$ 295,903	\$ 4,876,681	\$ 0	\$ 626,838
PROPERTY HELD IN TRUST: July 1, 1999					\$ 28,436	
ADDITIONS						
Budgeted Revenues & Transfers-In	930,968	34,770,500	2,446,925	27,233,138		
NonBudgeted Revenues & Transfers-In	948	136,210		952		
Prior Year Revenues & Transfers-In Adjustments	63,675	251,418				
Direct Entries to Fund Balance	124,216,066	15,471,263				(626,838)
Additions To Property Held in Trust					68,734	
Total Additions	125,211,657	50,629,391	2,446,925	27,234,090	68,734	(626,838)
REDUCTIONS						
Budgeted Expenditure & Transfers-Out	125,062,871	49,803,454	2,535,282	25,718,246		
NonBudgeted Expenditure & Transfers-Out		278		(384,693)		
Prior Year Expenditure & Transfers-Out Adjustments	(1,659)	297,569		623,600	66,832	
Reductions in Property Held in Trust					66,832	
Total Reductions	125,061,212	50,101,301	2,535,282	25,957,153	66,832	
FUND BALANCE: June 30, 2000	\$ 132,025	\$ 11,864,150	\$ 207,546	\$ 6,153,618	\$ 0	\$ 0
PROPERTY HELD IN TRUST: June 30, 2000					\$ 30,338	

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

**BOARD OF REGENTS AND OFFICE OF THE COMMISSIONER OF HIGHER EDUCATION**  
**SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

TOTAL REVENUES & TRANSFERS-IN BY CLASS					
	General Fund	Special Revenue Fund	Enterprise Fund	Internal Service Fund	Agency Fund
Taxes	\$ 1,199,310	\$ 604,958			\$ 1,804,268
Charges for Services		27,003,580			27,003,580
Investment Earnings		833,361			1,334,443
Fines and Forfeits			\$ 2,705,168	\$ 501,082	21,330
Contributions and Premiums				28,828,990	31,534,158
Miscellaneous	431	4,872,535		4,715	5,146
Other Financing Sources		12,212,577			4,872,535
Federal					12,212,577
Federal Indirect Cost Recoveries	30,106				30,106
Total Revenues & Transfers-In	1,229,847	45,527,011	2,705,168	29,356,117	78,818,143
Less: Nonbudgeted Revenues & Transfers-In					
Prior Year Revenues & Transfers-In Adjustments	2,428	3,710,140		101	3,703,229
Actual Budgeted Revenues & Transfers-In	25,671	1,295,551			1,330,662
Estimated Revenues & Transfers-In	1,201,748	40,521,320	2,705,168	29,356,016	73,784,252
Budgeted Revenues & Transfers-In Over (Under) Estimated	1,175,000	66,390,900	2,980,324	34,434,860	104,981,084
	26,748	(25,869,580)	(275,156)	(5,078,844)	(31,196,832)
	\$	\$	\$	\$	\$
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS					
Taxes	\$ 30,643	\$ (2,437,817)			\$ (2,407,174)
Charges for Services		2,844,472			2,844,472
Investment Earnings		(139,303)			(38,322)
Contributions and Premiums			\$ (275,156)	\$ 100,981	(4,809,696)
Miscellaneous				(4,534,540)	(645,285)
Other Financing Sources		(38,000)		(645,285)	(38,000)
Federal		(26,098,932)			(26,098,932)
Federal Indirect Cost Recoveries	(3,895)				(3,895)
Budgeted Revenues & Transfers-In Over (Under) Estimated	26,748	(25,869,580)	(275,156)	(5,078,844)	(31,196,832)
	\$	\$	\$	\$	\$

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

BOARD OF REGENTS AND OFFICE OF THE COMMISSIONER OF HIGHER EDUCATION  
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN  
FOR THE FISCAL YEAR ENDED JUNE 30, 2000

TOTAL REVENUES & TRANSFERS-IN BY CLASS					
	General Fund	Special Revenue Fund	Enterprise Fund	Internal Service Fund	Total
Taxes	\$ 995,089	\$ 826		\$ 40	\$ 995,955
Charges for Services		24,239,788			24,239,788
Investment Earnings		459,641			862,098
Contributions and Premiums			\$ 2,446,925	402,457	29,109,794
Miscellaneous				26,662,869	170,773
Other Financing Sources	502	1,547		168,724	582,285
Federal		582,285			9,874,041
Total Revenues & Transfers-In	995,591	9,874,041	2,446,925	27,234,090	65,834,734
Less: Nonbudgeted Revenues & Transfers-In					
Prior Year Revenues & Transfers-In Adjustments	948	136,210		952	138,110
Actual Budgeted Revenues & Transfers-In	63,675	251,418			315,093
Estimated Revenues & Transfers-In	930,968	34,770,500	2,446,925	27,233,138	65,381,531
Budgeted Revenues & Transfers-In Over (Under) Estimated	1,107,000	61,252,235	2,500,000	29,903,090	94,762,325
	<u>\$ (176,032)</u>	<u>\$ (26,481,735)</u>	<u>\$ (53,075)</u>	<u>\$ (2,669,952)</u>	<u>\$ (29,380,794)</u>
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS					
Taxes	\$ (176,032)				\$ (176,032)
Charges for Services		\$ 19,245,062			19,245,062
Investment Earnings		(308,888)			(307,189)
Contributions and Premiums			\$ (53,075)	1,699	(2,543,296)
Miscellaneous				(2,490,221)	(181,430)
Other Financing Sources				(181,430)	(217,715)
Federal		(217,715)			(45,200,194)
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ (176,032)</u>	<u>\$ (26,481,735)</u>	<u>\$ (53,075)</u>	<u>\$ (2,669,952)</u>	<u>\$ (29,380,794)</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

BOARD OF REGENTS AND OFFICE OF THE COMMISSIONER OF HIGHER EDUCATION  
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	ADMINISTRATION	APPROPRIATION DISTRIBUTION	BOARD OF REGENTS- ADMIN	C.D PERKINS ADMIN	COMMUNITY COLLEGE ASSISTANCE	DDE MATHEMATICS & SCI ED ACT	GUARANTEED STUDENT LOAN PGM	MUS GROUP INSURANCE PROGRAM	NONBUDGETED	STUDENT ASSISTANCE PROGRAM	TALENT SEARCH	Total
PROGRAM EXPENDITURES & TRANSFERS-OUT BY OBJECT												
Personal Services												
Salaries	\$ 804,204		\$ 11,750	\$ 187,590		\$ 7,604	\$ 1,057,557	\$ 118,614		\$ 15,827	\$ 517,173	\$ 2,708,569
Other Compensation												11,750
Employee Benefits	170,670			49,101		1,760	303,744	29,228			144,976	699,479
Personal Services-Other								492				492
Total	<u>974,874</u>		<u>11,750</u>	<u>236,691</u>	\$	<u>9,364</u>	<u>1,361,301</u>	<u>148,334</u>		<u>15,827</u>	<u>662,149</u>	<u>3,420,290</u>
Operating Expenses												
Other Services	595,195	\$ 126,429	1,571	25,647			1,861,170	3,849,362			214,907	6,674,281
Supplies & Materials	30,912		1,072	26,653		46	86,136	6,259			69,188	220,266
Communications	30,261		326	11,369		10	139,768	2,104			21,282	205,120
Travel	27,684		22,924	68,138		440	94,436	4,317			110,233	328,172
Rent	75,164		20	6,243			147,543	10,146			205	239,321
Utilities	9,448						18,922					28,370
Repair & Maintenance	19,403						35,443					54,846
Other Expenses	3,514		6,225	18,317			1,212,475	265,851	\$ 30,105		326,213	1,862,700
Total	<u>791,581</u>	<u>126,429</u>	<u>32,138</u>	<u>156,367</u>		<u>496</u>	<u>3,595,893</u>	<u>4,138,039</u>	<u>30,105</u>		<u>742,028</u>	<u>9,613,076</u>
Equipment & Intangible Assets												
Equipment							41,439					41,439
Total							<u>41,439</u>					<u>41,439</u>
Capital Outlay												
Buildings				139								139
Total				<u>139</u>								<u>139</u>
Local Assistance												
From State Sources						5,368,493				88,000		5,456,493
Total						<u>5,368,493</u>				<u>88,000</u>		<u>5,456,493</u>
Grants												
From State Sources		417,000								7,634,469		8,051,469
From Federal Sources				2,593,189		279,142					2,360,274	5,232,605
From Other Sources						1,100				108,887	5,602	115,589
Total		<u>417,000</u>		<u>2,593,189</u>		<u>280,242</u>				<u>7,743,356</u>	<u>2,365,876</u>	<u>13,399,663</u>
Benefits & Claims												
Insurance Payments							21,253,583	27,719,981	785,418			49,758,982
Total							<u>21,253,583</u>	<u>27,719,981</u>	<u>785,418</u>			<u>49,758,982</u>
Transfers												
Accounting Entity Transfers		135,077,753		5,207,449								140,285,202
Total		<u>135,077,753</u>		<u>5,207,449</u>								<u>140,285,202</u>
Debt Service												
Leases							625					625
Total							<u>625</u>					<u>625</u>
Total Expenditures & Transfers-Out	\$ <u>1,766,455</u>	\$ <u>135,621,182</u>	\$ <u>43,888</u>	\$ <u>8,193,835</u>	\$ <u>5,368,493</u>	\$ <u>290,102</u>	\$ <u>26,252,841</u>	\$ <u>32,006,354</u>	\$ <u>815,523</u>	\$ <u>7,847,183</u>	\$ <u>3,770,053</u>	\$ <u>221,975,909</u>
EXPENDITURES & TRANSFERS-OUT BY FUND												
General Fund	\$ 1,235,714	\$ 118,361,542	\$ 43,888	\$ 68,566	\$ 5,368,493				\$ 30,105	\$ 7,609,680	\$ 85,635	\$ 132,803,623
Special Revenue Fund	530,741	17,259,640		8,125,269		\$ 290,102	\$ 26,252,841			237,503	3,684,418	56,380,514
Enterprise Fund								\$ 2,777,271				2,777,271
Internal Service Fund								29,229,083	785,418			30,014,501
Total Expenditures & Transfers-Out	<u>1,766,455</u>	<u>135,621,182</u>	<u>43,888</u>	<u>8,193,835</u>	<u>5,368,493</u>	<u>290,102</u>	<u>26,252,841</u>	<u>32,006,354</u>	<u>815,523</u>	<u>7,847,183</u>	<u>3,770,053</u>	<u>221,975,909</u>
Less: Nonbudgeted Expenditures & Transfers-Out	530,741			139			83,749	492	30,105			645,226
Prior Year Expenditures & Transfers-Out Adjustments				(11,977)	21,471	37,000		(77,228)	785,418		(50)	754,634
Actual Budgeted Expenditures & Transfers-Out	<u>1,235,714</u>	<u>135,621,182</u>	<u>43,888</u>	<u>8,205,673</u>	<u>5,347,022</u>	<u>253,102</u>	<u>26,169,092</u>	<u>32,083,090</u>		<u>7,847,183</u>	<u>3,770,103</u>	<u>220,576,049</u>
Budget Authority	<u>1,273,250</u>	<u>135,842,276</u>	<u>43,888</u>	<u>8,686,683</u>	<u>5,802,528</u>	<u>259,602</u>	<u>34,582,256</u>	<u>33,106,889</u>		<u>7,890,464</u>	<u>4,487,396</u>	<u>231,975,232</u>
Unspent Budget Authority	\$ <u>37,536</u>	\$ <u>221,094</u>	\$ <u>0</u>	\$ <u>481,010</u>	\$ <u>455,506</u>	\$ <u>6,500</u>	\$ <u>8,413,164</u>	\$ <u>1,023,799</u>	\$ <u>0</u>	\$ <u>43,281</u>	\$ <u>717,293</u>	\$ <u>11,399,183</u>
UNSPENT BUDGET AUTHORITY BY FUND												
General Fund		\$ 67,772		\$ 10,976	\$ 455,506						\$ 12	\$ 534,266
Special Revenue Fund	\$ 37,536	153,322		470,034		\$ 6,500	\$ 8,413,164			\$ 43,281	717,281	9,841,118
Enterpnse Fund								\$ 203,053				203,053
Internal Service Fund								820,746				820,746
Unspent Budget Authority	\$ <u>37,536</u>	\$ <u>221,094</u>	\$ <u>0</u>	\$ <u>481,010</u>	\$ <u>455,506</u>	\$ <u>6,500</u>	\$ <u>8,413,164</u>	\$ <u>1,023,799</u>	\$ <u>0</u>	\$ <u>43,281</u>	\$ <u>717,293</u>	\$ <u>11,399,183</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11





BOARD OF REGENTS AND OFFICE OF THE COMMISSIONER OF HIGHER EDUCATION  
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2000

	ADMINISTRATION PROGRAM	APPROPRIATION DISTRIBUTION	BOARD OF REGENTS- ADMIN	C D PERKINS ADMIN	COMMUNITY COLLEGE ASSISTANCE	DDE MATHEMATICS & SCI ED ACT	GUARANTEED STUDENT LOAN PGM	MUS GROUP INSURANCE PROGRAM	NONBUDGETED	STUDENT ASSISTANCE PROGRAM	TALENT SEARCH	Total
PROGRAM EXPENDITURES & TRANSFERS-OUT BY OBJECT												
Personal Services												
Salaries	\$ 765,576			\$ 187,982		\$ 2,793	\$ 1,045,855	\$ 116,078			\$ 379,564	\$ 2,497,848
Other Compensation			\$ 11,150									11,150
Employee Benefits	160,031			50,931		759	306,042	28,958			110,802	657,523
Personal Services-Other									\$ 8,016			8,016
Total	<u>925,607</u>		<u>11,150</u>	<u>238,913</u>		<u>3,552</u>	<u>1,351,897</u>	<u>145,036</u>	<u>8,016</u>		<u>490,366</u>	<u>3,174,537</u>
Operating Expenses												
Other Services	146,279	\$ 704,821	452	57,242		29	2,032,071	1,928,858			13,458	4,883,210
Supplies & Materials	21,758		1,918	45,827		12,005	50,020	10,375			42,000	183,903
Communications	31,759		309	16,631		1	155,790	2,184			17,047	223,721
Travel	26,660	306	22,684	69,683		1,555	82,535	2,599			79,039	285,061
Rent	77,556			3,660			142,880	9,234			154	233,484
Utilities	10,430						16,334					26,764
Repair & Maintenance	19,960			1,159			35,427	313			461	57,320
Other Expenses	(11,854)		7,250	16,560			934,586	255,943			45,896	1,248,381
Total	<u>322,548</u>	<u>705,127</u>	<u>32,613</u>	<u>210,762</u>		<u>13,590</u>	<u>3,449,643</u>	<u>2,209,506</u>			<u>198,055</u>	<u>7,141,844</u>
Capital Outlay												
Buildings											132	132
Total											<u>132</u>	<u>132</u>
Local Assistance												
From State Sources					5,204,313					85,000		5,289,313
Total					<u>5,204,313</u>					<u>85,000</u>		<u>5,289,313</u>
Grants												
From State Sources		417,000								7,366,099		7,783,099
From Federal Sources				2,420,599		199,154					316,014	2,935,767
From Other Sources										92,841		92,841
Total		<u>417,000</u>		<u>2,420,599</u>		<u>199,154</u>				<u>7,458,940</u>	<u>316,014</u>	<u>10,811,707</u>
Benefits & Claims												
Insurance Payments							18,462,260	26,522,586	(392,709)			44,592,137
Total							<u>18,462,260</u>	<u>26,522,586</u>	<u>(392,709)</u>			<u>44,592,137</u>
Transfers												
Accounting Entity Transfers		126,758,255		5,883,275								132,641,530
Total		<u>126,758,255</u>		<u>5,883,275</u>								<u>132,641,530</u>
Debt Service												
Leases							3,748					3,748
Total							<u>3,748</u>					<u>3,748</u>
Total Expenditures & Transfers-Out	\$ <u>1,248,155</u>	\$ <u>127,880,382</u>	\$ <u>43,763</u>	\$ <u>8,753,549</u>	\$ <u>5,204,313</u>	\$ <u>216,296</u>	\$ <u>23,267,548</u>	\$ <u>28,877,128</u>	\$ <u>(384,693)</u>	\$ <u>7,543,940</u>	\$ <u>1,004,567</u>	\$ <u>203,654,948</u>
EXPENDITURES & TRANSFERS-OUT BY FUND												
General Fund	\$ 1,248,155	\$ 111,024,609	\$ 43,763	\$ 77,693	\$ 5,204,313					\$ 7,380,685	\$ 81,994	\$ 125,061,212
Special Revenue Fund		16,855,773		8,675,856						163,255	922,573	50,101,301
Enterprise Fund						\$ 216,296	\$ 23,267,548	\$ 2,535,282				2,535,282
Internal Service Fund								26,341,846	\$ (384,693)			25,957,153
Total Expenditures & Transfers-Out	<u>1,248,155</u>	<u>127,880,382</u>	<u>43,763</u>	<u>8,753,549</u>	<u>5,204,313</u>	<u>216,296</u>	<u>23,267,548</u>	<u>28,877,128</u>	<u>(384,693)</u>	<u>7,543,940</u>	<u>1,004,567</u>	<u>203,654,948</u>
Less: Nonbudgeted Expenditures & Transfers-Out				54					(384,693)		224	(384,415)
Prior Year Expenditures & Transfers-Out Adjustments				(6,157)			305,482	623,600		(2,824)	(591)	919,510
Actual Budgeted Expenditures & Transfers-Out	<u>1,248,155</u>	<u>127,880,382</u>	<u>43,763</u>	<u>8,759,652</u>	<u>5,204,313</u>	<u>216,296</u>	<u>22,962,066</u>	<u>28,253,528</u>		<u>7,546,764</u>	<u>1,004,934</u>	<u>203,119,853</u>
Budget Authority	<u>1,304,837</u>	<u>132,600,406</u>	<u>43,825</u>	<u>9,299,951</u>	<u>5,701,946</u>	<u>378,882</u>	<u>28,118,273</u>	<u>29,793,315</u>		<u>7,685,409</u>	<u>2,513,329</u>	<u>217,440,173</u>
Unspent Budget Authority	\$ <u>56,682</u>	\$ <u>4,720,024</u>	\$ <u>62</u>	\$ <u>540,299</u>	\$ <u>497,633</u>	\$ <u>162,586</u>	\$ <u>5,156,207</u>	\$ <u>1,539,787</u>	\$ <u>0</u>	\$ <u>138,645</u>	\$ <u>1,508,395</u>	\$ <u>14,320,320</u>
UNSPENT BUDGET AUTHORITY BY FUND												
General Fund	\$ 19,146	\$ 4,465,005	\$ 62	\$ 5,043	\$ 497,633					\$ 67,802	\$ 1,048	\$ 5,055,739
Special Revenue Fund	37,536	255,019		535,256		\$ 162,586	\$ 5,156,207			70,843	1,507,347	7,724,794
Enterprise Fund								\$ 213,886				213,886
Internal Service Fund								1,325,901				1,325,901
Unspent Budget Authority	\$ <u>56,682</u>	\$ <u>4,720,024</u>	\$ <u>62</u>	\$ <u>540,299</u>	\$ <u>497,633</u>	\$ <u>162,586</u>	\$ <u>5,156,207</u>	\$ <u>1,539,787</u>	\$ <u>0</u>	\$ <u>138,645</u>	\$ <u>1,508,395</u>	\$ <u>14,320,320</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11





# Board of Regents and Office of the Commissioner of Higher Education

Notes to the Financial Schedules for the  
Two Fiscal Years Ended June 30, 2001

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## 1. Summary of Significant Accounting Policies

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### Basis of Accounting

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The Montana Board of Regents and Office of the Commissioner of Higher Education (OCHE) uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental, and Agency Funds. In applying the modified accrual basis, OCHE records:

Revenues when it receives cash or when receipts are measurable and available to pay current period liabilities.

Expenditures for valid obligations when it incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires OCHE to record the cost of employees' annual leave and sick leave when used or paid.

OCHE uses the accrual basis accounting for the Proprietary Funds. Under the accrual basis, as defined by state accounting policy, OCHE records revenues in the accounting period earned, when measurable, and records expenses in the period incurred, when measurable.

Expenditures and expenses may include: entire budgeted service contracts even though OCHE receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

### Basis of Presentation

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The financial schedule format is in accordance with the policy of the Legislative Audit Committee. The financial schedules are prepared

## Notes to the Financial Schedules

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from the transactions posted to the state's accounting system without adjustment.

Accounts are organized in funds according to state law. OCHE uses the following funds:

### Governmental Funds

**General Fund** - to account for all financial resources except those required to be accounted for in another fund. OCHE includes funds appropriated for general operations of the office and distributions to the university units and community colleges for their general operations.

**Special Revenue Fund** - to account for proceeds of specific revenue sources legally restricted to expenditures for specific purposes. The majority of this activity includes mill levy distributions to the university units and the federal programs including the Federal Family Education Loan (formerly Guaranteed Student Loan) program and the Vocational Education - Basic Grants to States (formerly Carl D. Perkins) grant.

### Proprietary Funds

**Enterprise Fund** - to account for operations (a) financed and operated in a manner similar to private business enterprises, where the Legislature intends that OCHE finance or recover costs primarily through user charges; or (b) where the Legislature has decided that periodic determination of revenues earned, expenses incurred or net income is appropriate. The Enterprise Fund consists of the Montana University System's (MUS) Flexible Spending Account.

**Internal Service Fund** - to account for providing goods or services to other agencies or departments on a cost-reimbursement basis. The MUS group health insurance plan is accounted for in this fund. The MUS Group Benefits Plan was authorized by the Board of Regents to provide medical coverage to employees of the university system, as well as their dependents, retirees and Consolidated Omnibus Budget Reconciliation Act (COBRA) members. Beginning July 1, 1990, the MUS Group Benefit Plan was fully self-insured.

**Fiduciary Funds**

**Trust and Agency Funds** - to account for assets held by the state in a trustee capacity or as an agent for individuals, private organizations, other governments or other funds. OCHE fiduciary funds include Agency Funds related to college license plates, wellness funds, and optional retirement funds.

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**2. General Fund Balance  
(positive balances)**

Each agency has authority to pay obligations from the statewide General Fund within its appropriation limits. The office's total assets placed in the fund exceed outstanding liabilities, resulting in positive ending General Fund balances for each of the two fiscal years ended June 30, 2000, and June 30, 2001. These balances reflect activity at the agency and not the fund balance of the statewide General Fund.

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**3. Special Revenue Fund  
Direct Entries to Fund  
Balance**

Section 20-25-423, MCA, levies property taxes to support, maintain, and improve the Montana University System. The State Treasurer collects university property tax revenue and records it in a Special Revenue Fund of the Department of Revenue. These collections appear on OCHE's financial schedules as Direct Entries to Fund Balance in the Special Revenue Fund totaling \$15,471,263 and \$13,489,202 in fiscal years 1999-00 and 2000-01, respectively.

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**4. Nonbudgeted**

The Nonbudgeted column with that title on the Schedules of Total Expenditures & Transfers-Out for each of the fiscal years ended June 30, 2001 and 2000 is nonbudgeted activity. The majority of this activity for both fiscal years is related to the MUS Group Insurance Program operations in the Internal Service Fund. In fiscal year 2001, \$30,105 of indirect cost recoveries in the General Fund is recorded as nonbudgeted.

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**5. Vocational Education  
Basic Grants to States**

OCHE recorded expenditures of the Vocational Education - Basic Grants to States funds of \$4,930,757 and \$5,007,583 in fiscal years 1999-00 and 2000-01, respectively. OCHE contracted with the Office of Public Instruction (OPI) to manage the portion of these funds provided to secondary

## Notes to the Financial Schedules

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schools. It transferred \$2,871,910 and \$2,941,658 in the Carl D. Perkins Administration program during fiscal years 1999-00 and 2000-01, respectively, to OPI to fund secondary school vocational education projects. OCHE recorded funds received from the federal grantor (U.S. Department of Education) as Federal Revenues and the funds sent to OPI as Transfers-Out.

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6. **General Fund  
Appropriations**

House Bill 2, Laws of 1999, appropriated General Fund moneys to the office for distribution to the units of the university system and the community colleges. OCHE accounts for this activity in the General Fund as Direct Entries to Fund Balance, Accounting Entity Transfers to universities in the Appropriations Distribution program, and Local Assistance from State Sources to community colleges in the Community College Assistance program.

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7. **Related Party  
Transactions**

OCHE and the Montana Higher Education Student Assistance Corporation (MHESAC) both have lease agreements with Lewis and Clark County for the building in which they are located. OCHE has an agreement with the MHESAC to share certain costs associated with the building. OCHE's Montana Guaranteed Student Loan Program (MGSLP) also has an agreement with the MHESAC for the lease of computer equipment and the supplies and personal services related to the computer system. OCHE paid MHESAC \$390,933 and \$449,486 in fiscal years 1999-00 and 2000-01, respectively. The MGSLP receives certain services from state agencies that directly benefit the MHESAC, and MHESAC employees are allowed to participate in the MUS Group Insurance Plan. The MHESAC reimbursed OCHE \$503,132 and \$470,938 in fiscal years 1999-00 and 2000-01, respectively, for these services. OCHE accounted for the MHESAC's reimbursements as expenditure reductions.

# Agency Responses

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MONTANA UNIVERSITY SYSTEM  
OFFICE OF COMMISSIONER OF HIGHER EDUCATION

2500 BROADWAY • PO BOX 203101 HELENA, MONTANA 59620-3101 (406)444-6570 FAX (406)444-1469

March 4, 2002

RECEIVED

MAR 05 2002

LEGISLATIVE AUDIT DIV.

Mr. Scott Seacat  
Legislative Auditor  
State Capitol  
Helena, MT 59620

Dear Mr. Seacat:

Enclosed are the responses to the financial-compliance audit report of the Board of Regents and Commissioner of Higher Education for the two years ended June 30, 2001. We concur with the recommendations.

We wish to thank your staff for providing the Office of the Commissioner of Higher Education with help and insight in regard to improving our financial operations. We have entered corrections for one recommendation and will work with the Budget Office to correct another. The Guaranteed Student Loan Program is working with other national guarantee agencies to develop a more efficient national lender review process. OCHE will work very hard to implement all of your recommendations.

Sincerely,

A handwritten signature in cursive script that reads "Laurie O. Neils".

Laurie O. Neils  
Director of Budget and Accounting

Enclosures



### RECOMMENDATION #1

We recommend:

- A. OCHE record indirect cost recoveries as revenue in compliance with state law and policy
- B. The Office of Budget and Program Planning work with OCHE to ensure expenditure activity for OCHE is recorded in compliance with state law.

### AGENCY RESPONSE:

Concur.

The Office of the Commissioner of Higher Education did attempt to rectify this problem by including the issue in our 2003 biennium budget proposals. OCHE's request was not included in the Executive's budget proposal. We will work with The Office of Budget and Program Planning to fix the way the indirect cost recoveries are appropriated and thereby allow OCHE to make proper accounting entries.

### RECOMMENDATION #2

We recommend OCHE strengthen accounting procedures to ensure federal amounts are allowable.

### AGENCY RESPONSE:

Concur.

An accounting entry to correct the error that resulted in overstated expense in the Tech-Prep grant and understated expenses in Perkins for the same dollar amount has been entered on SABHRS. The federal report (FSR) has been corrected. In regard to the second issue involving presenter fees in Tech-Prep, OCHE plans to send a letter to the Department of Education's Office of Vocational and Adult Education (OVAE) for further clarification. OCHE agrees that presenter fees are not an allowable expense from Tech-Prep Administration dollars. However, because Montana's consortia proposed and endorsed the expenditures OCHE believes the outcome was appropriate. Therefore, OCHE will ask for an interpretation from OVAE.

### RECOMMENDATION #3

We recommend OCHE perform biennial reviews of lenders meeting federal criteria as required by federal regulations for the Federal Family Education Loan Program.

### AGENCY RESPONSE:

Concur.

The office will completely implement the changes recommended. The lender that was not reviewed is located out of state. The Guaranteed Student Loan Program converted to a new student loan software system during the fiscal year that put significant constraint on staff time to travel out of state. The out-of-state lender is a national student loan lender who has been reviewed by at least one of the 36 national guarantee agencies. Montana is working with the US Department of Education and other guarantee agencies to restructure the lender review process to allow a "single audit" and eliminate the requirement for every one of the 36 national guarantee agencies to review national lenders.



OFFICE OF THE GOVERNOR  
BUDGET AND PROGRAM PLANNING  
STATE OF MONTANA



JUDY MARTZ  
GOVERNOR

PO Box 200802  
HELENA, MONTANA 59620-0802

March 4, 2002

Mr. Scott Seacat  
Legislative Auditor  
State Capitol, Room 160  
Helena, MT 59620

RECEIVED  
MAR 05 2002  
LEGISLATIVE AUDITOR

Dear Mr. Seacat,

**Recommendation #1B**

The Office of Budget and Program Planning work with OCHE to ensure expenditure activity for OCHE is recorded in compliance with state law.

**Agency Response**

We concur.

To make the process of recording federal indirect cost revenue and expenditures in the general fund appropriate, I have asked the OCHE to request a general fund supplemental appropriation for Fiscal Year 2002 and Fiscal Year 2003, if sufficient spending authority is not available when recording this activity. The OCHE will also need to submit a budget request for spending authority for the 2005 biennium for this issue.

At our request, the Department of Administration removed the non-budgeted expenditure account (62827A) from the state's accounting system that was associated with this concern in Fiscal Year 2001.

Thank you for the opportunity to respond.

Sincerely,

A handwritten signature in black ink, appearing to read "Chuck Swysgood".  
Chuck Swysgood  
Budget Director





